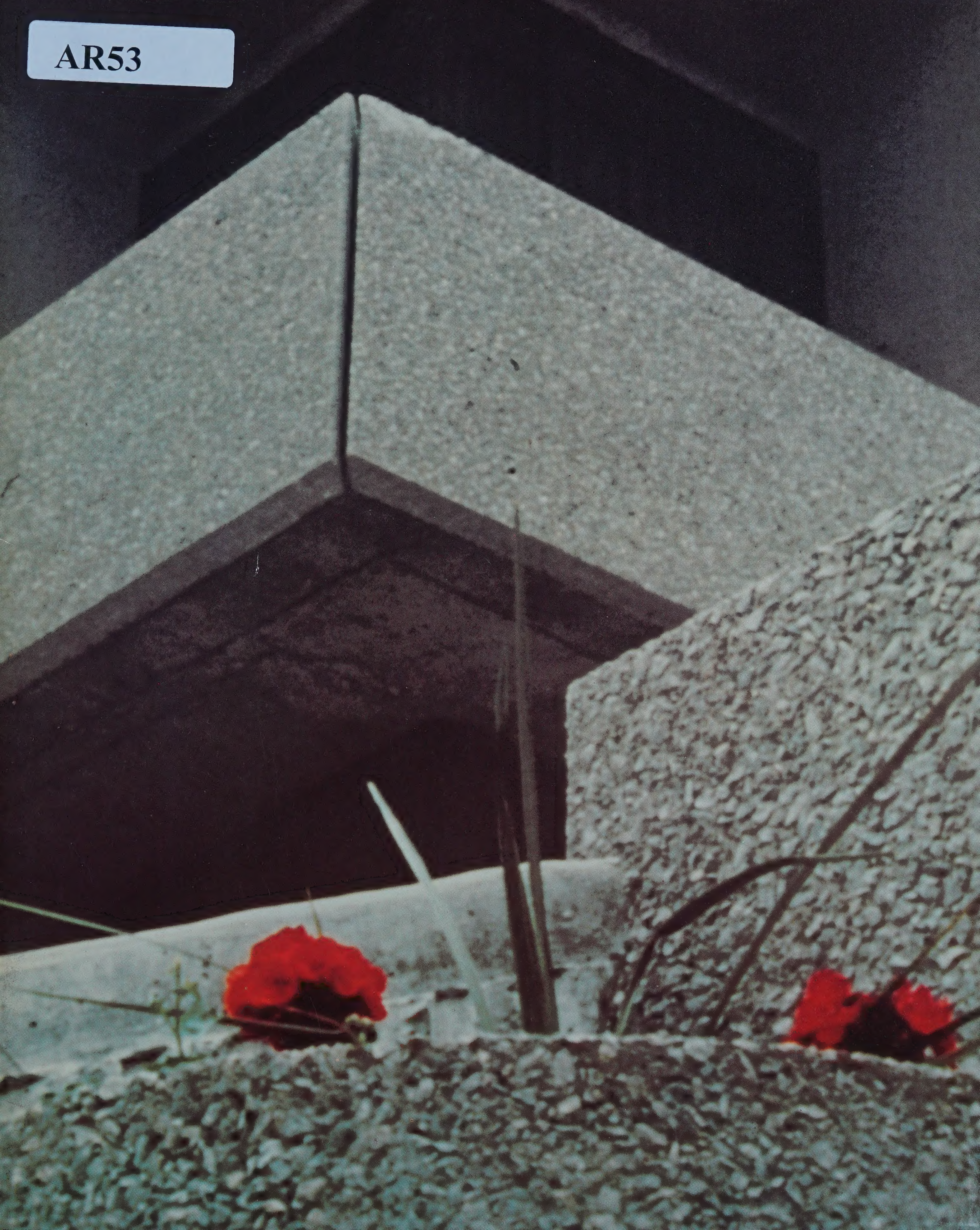
1976 Annual Report

Markborough Properties



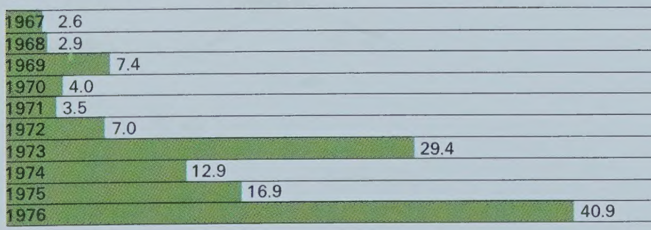


## Contents

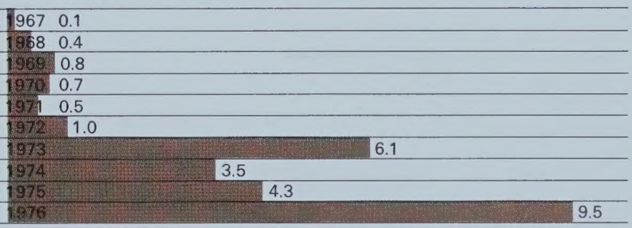
# Highlights

| | 1976 | 1975 |
|---|---|---|
| **Operating results for the year** | | |
| Revenue from land operations | $40,933,000 | $16,925,000 |
| Revenue from income properties | 8,720,000 | 7,740,500 |
| Net income before taxes | 18,109,100 | 8,905,700 |
| Net income after taxes | 9,489,100 | 4,282,700 |
| Per common share (weighted average): | | |
| Net income after taxes | $2.37 | $1.07 |
| Cash flow from operations | 3.54 | 1.70 |
| **Financial position at the year-end** | | |
| Undeveloped land | $83,719,100 | $63,215,200 |
| Income properties | 57,062,300 | 51,291,700 |
| Bank debt | 9,972,200 | 9,608,700 |
| Long-term debt | 90,261,100 | 70,807,800 |
| Share capital | 20,956,300 | 20,956,300 |
| Retained earnings | 26,075,800 | 17,467,300 |
| **Statistical at the year-end** | | |
| Common shares outstanding | 4,002,499 | 4,002,499 |
| Ratio of income properties to land for development | .7 to 1 | .8 to 1 |
| Ratio of debt to equity | 2.1 to 1 | 2.1 to 1 |

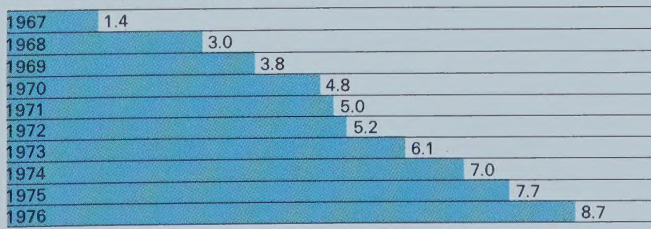
Revenue from land operations (millions $)



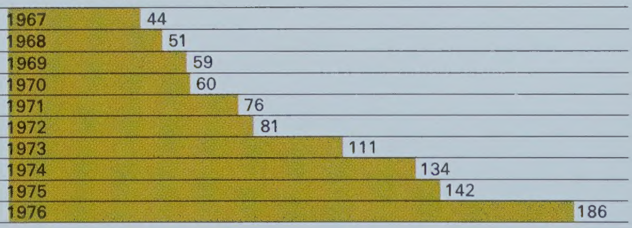

Net income after taxes (millions $)




Revenue from income properties (millions $)




Total assets (millions $)



## Dear Shareholder:

I am pleased to report that 1976 was a very good year for Markborough. In many areas we were able to reach levels of achievement which were higher than at any previous time in our 11 year history. Land sales rose to $40.9 million, exceeding our previous high of $29.4 million in 1973. Revenue from income properties, having increased each year since we began, was $8.7 million, 12 per cent more than in 1975. Profit too was up: $2.37 per share, compared with $1.07 last year.

Not all 1976 results were positive. Profit from income properties was down $300,000 from 1975 in spite of higher gross revenue. About $80,000 of this decrease resulted from the sale of two apartment buildings, but the major income property disappointments were 220 Duncan Mill Road in North York, and excessive vacancies in some of our industrial buildings. The office building at 220 Duncan Mill Road is only 51 per cent leased and at this level it will continue to have an adverse effect on our income property income. Industrial vacancies, while costly to us in 1976, are fortunately no longer a problem. Our industrial space is almost fully leased, and we are now considering the construction of additional buildings to meet the apparent increasing demand.

Operating costs also increased over last year. General and administrative expenses were higher by some $400,000. About $200,000 of this increase was for additional salaries, mostly for new staff to look after a much larger volume of work. The most significant increase in other expenses related to the cost of investigating new business opportunities and generally in providing the increased services that accompany greater activity. We will continue to carefully control unwarranted increases in our operating overhead, but as the scope of our operations broadens, additional staff and administrative capacity will be required.

During the year we purchased over 1,100 acres of land for future development. In Cleveland we acquired approximately 460 acres to enable us to continue our estate lot development program. In Calgary we purchased 550 acres, a move which is of particular significance to the Company. We had wanted to develop land in the Province of Alberta for some time, and a number of possibilities were investigated. With this acquisition we will now be able to commence development in this prime market. We have established a small office in Calgary and preliminary planning of our newly acquired land is well under way.

Each of our three operating divisions – land development, commercial and industrial – were very active during the year. Some of the projects in which they were engaged, as well as some special projects which fall outside divisional responsibilities, are described elsewhere in this report. We will continue to seek out development opportunities and examine those which are presented to us on a selective basis.

As announced in December, the Directors have approved an increase in the Company's semi-annual dividend payable in February from 11¢ to 13¢.

What is the present condition of the real property industry in our market areas, and under what economic conditions will it operate in 1977?

In the residential sector, prices are stable, volume is reasonably good, but inventories of new and used houses for sale are higher than has been normal for some time. The recent decline in interest rates should stimulate house buying, particularly if the emerging consensus that rates are at or near their lows, gains general acceptance. Industrial activity is encouraging, even surprising under the circumstances. The frustrations and discouragements that are part of operating businesses in a controlled economy are hardly conducive to the vigorous optimism that is the well-spring of an expanding industrial base. Yet demand for



The Calgary lands, looking north

industrial space is satisfactory. I suspect the prospect of reaching an end to the control period is at least a partial explanation for this anomaly. There is, in addition, the general expectation that a stimulative spill-over will flow from an improving U.S. economy. As the year progresses I would hope that the whole delicate process of rebuilding confidence will gain momentum.

A public feeling of confidence and security is so much the root system of a healthy economy that great care must be taken by our national political leaders not to undermine it. Careless, even threatening statements of the kind that have been made in the past are unsettling and confusing. We become nervous, indecisive and unduly concerned about the future. Action is avoided and we bump about in the misty never-never land of uncertainty. This is not the stuff of which confidence is made, and confidence we must have: in ourselves, in our institutions and in the leaders to whom we have entrusted the management of the country.

What are our prospects for 1977? Much depends on obtaining the planning registrations we expect. While it is unlikely we will reach the same levels of sales and profit we attained this year, I think that if the performance of the economy as a whole is even modestly positive, we should have another satisfactory year.

It is usual to conclude with an acknowledgement of the efforts of management and staff. In our case it is especially apt. Our people know their jobs. They work hard. We appreciate them.

B.R.B. Magee,
President and Chairman of the Board

## Land Development

As the first Meadowvale neighbourhoods mature, the varied aspects of a seasoned community are beginning to emerge: service clubs, ratepayers' groups, organized school and church activities, day-care centres and expanded recreational facilities.

To date, we have developed 940 residential acres in Meadowvale, space for over 7,000 families in dwelling units of all types – single and semi-detached homes, clusters, townhouses and apartment suites. In 1976 we were able to register 325 acres to accommodate 2,400 families. House construction is active and builders' sales this year have exceeded 700 units.

In September we began construction of the

lake in Meadowvale West. This huge excavation of over 11 acres will be filled in the Spring by the run-off from melting snow and seasonal rains. It will dominate Neighbourhood 3, striking testimony of our determination to enhance the natural environment of the area. Neighbourhood 3 and the residential portion of the Town Centre adjacent to it are the last residential neighbourhoods in Meadowvale West. We expect them to be registered in 1977.

The ultimate use for our land holdings in Meadowvale North, 900 acres north of Highway 401, is being re-examined as part of the continuing review of the City of Mississauga's Official Plan. We have recommended, and the City Planning staff have concurred, that this land be developed for mixed industrial and commercial uses – uses which will provide the City with a major centre of economic strength and a vital source of job opportunities. This area is especially suited for a vigorous industrial community. The essentials – population, housing, transportation, market – are already there. City discussions and debate on this recommendation will likely last most of this year. We would not therefore expect to commence construction of services and sales of this land before 1978.

■ From amongst our other land holdings in Southern Ontario, two projects now appear to be close to registration. In Aurora, north of Toronto, we purchased a 76 acre parcel during the year. The planning, engineering and processing of this project are well advanced and we hope to be able to service and market this land in 1977. In Whitby, we are still engaged in the tedious and frustrating process, begun early in 1973, of obtaining approvals for the development of our land. We are cautiously hopeful that in 1977 we will be successful, thereby permitting us to service and sell the land, planned to house over 700 families.

■ In a major move to further broaden our base of land development activities, we acquired in 1976 a fine site of almost 550 acres of land within the city limits of Calgary, Alberta. It appears that the first phase of this residential community can be brought into production in 1978. Essential services are already in place to the boundaries of the site and we have just recently commissioned detailed transportation and land planning studies as a first step in the process that will ultimately lead to a formal application for development approval. Although planning studies to date are of a preliminary nature, they indicate a fully built community of over 2,000 dwelling units, mostly of single family design in the moderate to middle price range.

■ Development of the 3,200 acre "Villages of Homestead" project in Florida, of which we are a 50 per cent owner and development manager, is about to commence. After over two years of intensive planning and the study of such diverse subjects as aquifer impact, rare species preservation and salt water intrusion, we are now able to proceed with servicing. Three contracts have been tendered covering earth works, underground services and roadways. Some of the construction under these contracts will benefit subsequent phases but most of the work relates to the first residential phase, comprising eight neighbourhoods. This phase will contain 2,290 dwelling units, mostly single family houses. Builders' interest appears strong and if our present schedule is maintained, we should have housing ready for occupancy by the end of the year.

During the year we acquired an additional 463 acres in Geauga County, east of Cleveland, Ohio. Our estate lot developments in this area have proven successful and this acquisition will enable us to maintain a continuing program. Since we began to operate in Ohio in 1974, we have acquired 1,070 acres of land. Except for our most recent purchase, much of this land is now developed and sold.

## Commercial Development

The Chelsea Inn in Toronto, owned in conjunction with London Life Insurance Company, the C.N. Pension Trust Fund and Canlea Investments Limited, (a partnership of A. E. LePage Limited and The Canadian Imperial Bank of Commerce) has completed its first year of operation. Managed by Delta Hotels Limited, its success has exceeded expecta-

Meadowvale winter scene. (Inset) The Lake under construction in Meadowvale West

tions. General Manager David W. Huffer and the entire Delta management team, under President William B. Pattison, have done a superb job. Room occupancy of the 808 unit apartment hotel has averaged over 90 per cent since March, 1976.

Food and beverage sales have been consistently good, with the Chelsea Bun, the principal entertainment room, becoming a popular gathering place. It is expected that operating revenues will rise in 1977, due to modest increases in room rates planned from January 1st.

■ The 240 room Regina Inn, jointly owned by Markborough and Trizec, achieved an occupancy rate of almost 80 per cent during the year, maintaining an unbroken record of increases in annual occupancy levels every year since 1968. But competition in Regina is increasing. We will be challenged to maintain its position as the City's leading hotel. This we are determined to do. To make sure that our facilities continue to be the best, management is currently studying a major refurbishing program.

■ Our policy to expand the Company's presence in the shopping centre industry was advanced during the year.

Construction commenced on the 170,000 square foot first phase of our community centre, Woodside Square, in the Brimley Forest area of Scarborough, Ontario. Anchored by a 42,000 square foot Dominion store, the leasing program has reached 95 per cent, with opening set for May 11th, 1977. Population in the primary market area has risen to about 25,000, with further residential development imminent. Planning for a second phase is already underway.

In Meadowvale, the shopping facilities in the Town Centre will be commenced in 1977. Working drawings for Phase I are nearing completion with a construction start planned for early Spring, subject to obtaining registration of the Town Centre plan. Leasing commitments have been obtained for about 60 per cent of the retail space. Opening is scheduled for early 1978. Progress is also being made with other components of the Town Centre. The inter-denominational church campus has a construction start scheduled for the Summer of 1977 and discussions are taking place on the feasibility of a medical office building.

The Duncan Mill Place office buildings

The Company now owns and operates three neighbourhood convenience centres in Meadowvale. All are leased and operating results are satisfactory. Construction of a fourth centre is planned to serve one of the new neighbourhoods.

Prior to year end, we acquired Centenary Plaza, a community shopping centre in the Borough of Scarborough in Metropolitan Toronto. Its 87,000 square feet of leaseable space is dominated by a 56,000 square foot Dominion supermarket, with a good mix of ancillary retail and office tenants. Improvements to this successful centre, including some possible expansion, are currently under review.

■ Our 120,000 square foot office building at 220 Duncan Mill Road is still not fully leased. Discussions are taking place with possible tenants for some of the vacant space still remaining. The neighbouring building, 240 Duncan Mill Road, is virtually leased out and is earning an improved yield. A comprehensive energy conservation program has been introduced in both buildings. It is estimated that over the next five years this program will save tenants approximately $500,000 through reduced operating costs. A similar conservation program is being extended to several of our other buildings.

Working drawings are nearing completion for a 100,000 square foot office building of unique design, to be located in Meadowvale. A decision to proceed with the construction of this building has not yet been made.

(Top right), Woodside Square shopping centre, under constructio
Scarborough, Ontario. (Centre) Centenary Plaza in Scarborough. (Righ
Meadowgreen Market convenience shopping centre, Meadowvale

DOMINION EMPORIUM
CAN DEPEND ON US

Meadowvale Drug Mart

## Industrial Development

There has been a significant improvement in industrial land sales and leasing activities.

In the Meadowvale Business Park, six land sales for over 23 acres were completed during the year. We welcome to the community the national headquarters of Swedish tool manufacturer Sandvik Canadian Limited, a sales and distribution centre for Standard Tube Canada Limited, the Canadian head office for Dow Corning (Canada) Limited and an office and warehousing facility for Kem Mfg. Canada Ltd. Meadowvale Four Rinks and Weight Watchers of Canada complete the list of our new neighbours.

(Below) The headquarters for Sandvik Canadian Limited, Meadowvale Business Park. (Bottom left) 6877 Goreway Drive, Rexdale, the Canadian headquarters for Hewlett-Packard (Canada) Ltd. (Bottom right) 3688 Nashua Drive, a multiple industrial building in the Rexdale Industrial Park

Construction of the Dow Corning project, a 42,600 square foot office and warehousing building in the recently developed Campobello Road section of the Park is being undertaken by our own Industrial Division. It is scheduled for completion and occupancy early in 1977.

During the year the Industrial Division leased 136,000 square feet of space to new tenants, with another 59,000 square feet committed on leases commencing in 1977. Keuffel and Esser of Canada Limited, Mazda Motors of Canada and Condor Laminations Limited took space in our Milner Avenue buildings in Scarborough. In Rexdale we put new tenants in place in both buildings at 3688 and 3710 Nashua Drive. These two buildings are now 77 per cent leased.

The Company owns or shares ownership in 17 industrial buildings. Our owned interest in

(Below) The sales and distribution centre for Standard Tube Canada Limited, Meadowvale. (Bottom left) 3710 Nashua Drive. (Bottom right) 126 Milner Avenue, Scarborough leased to Inmont Canada Limited


these buildings is 596,000 square feet. At the present time, all but 18,700 square feet of this space is under lease to tenants.

To provide some diversity to our industrial land inventory, a 19 acre site was acquired in the Town of Brampton. This site has ready access to rail siding and would be suitable to a major user who requires less restrictive industrial zoning.

Our 70 acre development on the Queen Elizabeth Way at Burlington proceeded to the draft plan approval stage. Registration and servicing of the land are expected by late 1977.

Although the industrial market in general lacks strength, we expect that the significant success of our Industrial Division in 1976 will continue into 1977.

## Special Projects

Redevelopment of the Toronto College Street site was marked by an important event during the year. The project moved from the preliminary planning stage to approval in principle by Toronto City Council of Phase I of the development. This phase will encompass the complete renovation of the existing seven storey retail store. The main floor and the first floor below grade will be redesigned for retail and commercial tenants. The second to sixth floors will be converted to offices and we are in the final stages of negotiations with a prime tenant for most of this space. It is planned to retain and improve the auditorium and restaurant on the seventh floor.

The Yonge Street wing of the present store will remain, with the main and lower floors continuing as retail and commercial space and the second floor converted to offices. Rising above this wing and structurally supported by it will be 10 storeys of rental apartments. A partially enclosed court, west of the Yonge Street structure, is designed as the focal point of the development.

Construction of these works is scheduled for commencement in the Spring of 1977 and the leasing program for the remaining office, retail and commercial space is progressing well.

■ During the year the Company and The Project Group Limited, a firm of Canadian planning consultants, together with Kuwaiti and Saudi Arabian interests, submitted a proposal to construct 3,600 housing units for lease to the employees of the Government owned Saudi Arabian Air Lines in Jeddah, Saudi Arabia. We have been informed that of the 14 bids received, ours is one of two still under consideration. If we are successful in obtaining this contract, Markborough and The Project Group will serve as the project co-ordinators and managers with financing arranged through Kuwaiti sources.

We also share with The Project Group a 49 per cent interest in the Kuwait-Canadian Trading and Contracting Company, a venture controlled in Kuwait and now registered to carry on business in that country. Its principal object is to provide a vehicle in the Middle East through which possible future business opportunities in the area might be pursued. The Managing Director of the Company, a Canadian, has now taken up residence in Kuwait.



The model of the Toronto College Street project

# Financial Statements

Price Waterhouse & Co.
CHARTERED ACCOUNTANTS

Box 51 Toronto-Dominion Centre
Toronto, Ont. M5K 1G1
(416) 863-1133 Telex 065-24111

December 3, 1976

AUDITORS' REPORT

To the Shareholders of
Markborough Properties Limited:

We have examined the consolidated balance sheet of Markborough Properties Limited and its subsidiaries as at October 31, 1976 and the consolidated statements of income and expenses, retained earnings and source and application of cash for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the companies as at October 31, 1976 and the results of their operations and the source and application of their cash for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co.

Chartered Accountants

# Consolidated Statement of Income and Expenses

| For the years ended October 31 | 1976 | 1975 |
|---|---|---|
| Revenue from land operations | $40,933,000 | $16,925,000 |
| Less cost | 25,128,400 | 9,387,100 |
| Profit from land operations | 15,804,600 | 7,537,900 |
| Revenue from income properties | 8,720,000 | 7,740,500 |
| Less: | | |
| Operating expenses | 2,465,600 | 2,032,800 |
| Mortgage and other interest | 2,808,900 | 2,376,300 |
| Realty taxes | 1,601,500 | 1,300,300 |
| Depreciation | 779,500 | 669,500 |
| | 7,655,500 | 6,378,900 |
| Profit from income properties | 1,064,500 | 1,361,600 |
| Interest and other income | 2,323,500 | 1,851,400 |
| Gain on sale of income properties | 1,017,000 | — |
| **Income before general and administrative expenses** | 20,209,600 | 10,750,900 |
| General and administrative expenses: | | |
| Executive and office salaries | 925,800 | 725,800 |
| Bank and debenture interest | 261,400 | 428,400 |
| Other | 913,300 | 691,000 |
| | 2,100,500 | 1,845,200 |
| **Net income before income taxes** | 18,109,100 | 8,905,700 |
| Provision for income taxes (Note 6) – | | |
| Current | 4,720,000 | 2,782,000 |
| Deferred | 3,900,000 | 1,841,000 |
| | 8,620,000 | 4,623,000 |
| **Net income for the year** | $ 9,489,100 | $ 4,282,700 |
| **Earnings per share** (based on weighted average of shares outstanding during the year) – (Note 10(b)) | $ 2.37 | $ 1.07 |

# Consolidated Statement of Retained Earnings

| For the years ended October 31 | 1976 | 1975 |
|---|---|---|
| Retained earnings at beginning of year | $17,467,300 | $13,184,600 |
| Net income for the year | 9,489,100 | 4,282,700 |
| | 26,956,400 | 17,467,300 |
| Dividends paid ($0.22 per share) | 880,600 | — |
| **Retained earnings at end of year** | $26,075,800 | $17,467,300 |

Sunset at Homestead, Florida

# Consolidated Balance Sheet

## Assets

| October 31 | 1976 | 1975 |
|---|---|---|
| Accounts receivable | $ 2,253,200 | $ 1,544,800 |
| Mortgages and other secured receivables (Note 2) | 33,560,900 | 18,200,500 |
| Land (Note 3) : | | |
| For sale | 8,204,100 | 6,989,900 |
| For future development | 83,719,100 | 63,215,200 |
| | 91,923,200 | 70,205,100 |
| Prepaid expenses and other assets | 1,581,100 | 862,400 |
| Income properties (Note 3) : | | |
| Land | 7,443,600 | 6,020,200 |
| Buildings | 50,681,400 | 39,619,900 |
| Equipment | 2,137,800 | 1,473,400 |
| Construction in progress (Note 4) | 1,925,100 | 9,272,700 |
| | 62,187,900 | 56,386,200 |
| Less accumulated depreciation | 5,125,600 | 5,094,500 |
| | 57,062,300 | 51,291,700 |
| | $186,380,700 | $142,104,500 |

## Liabilities and Shareholders' Equity

| October 31 | 1976 | 1975 |
|---|---|---|
| Bank indebtedness (Note 5) | $ 9,972,200 | $ 9,608,700 |
| Accounts payable and accrued liabilities: | | |
| On construction and development in progress | 4,002,300 | 1,775,700 |
| Other, including accrued interest | 4,357,300 | 2,524,500 |
| Income taxes payable (Note 6) | 2,408,200 | 428,200 |
| Provision for development costs | 12,466,500 | 6,555,000 |
| Amounts payable under land purchase agreements (Note 7) | 2,014,000 | 3,029,600 |
| Sinking fund debentures (Note 8) | 10,000,000 | 10,000,000 |
| Mortgages payable (Note 9) | 78,247,100 | 57,778,200 |
| Deferred income taxes (Note 6) | 15,881,000 | 11,981,000 |
| | 139,348,600 | 103,680,900 |
| Shareholders' equity: | | |
| Capital stock (Note 10) – | | |
| Authorized – 6,000,000 common shares, no par value | | |
| Issued – 4,002,499 shares | 20,956,300 | 20,956,300 |
| Retained earnings | 26,075,800 | 17,467,300 |
| | 47,032,100 | 38,423,600 |
| | $186,380,700 | $142,104,500 |

Approved by the Board: B.R.B.Magee, Director D.F.Prowse, Director

# Consolidated Statement of Source and Application of Cash

| For the years ended October 31 | 1976 | 1975 |
|---|---|---|
| **Cash was provided from:** | | |
| Operations – | | |
| Net income for the year | $ 9,489,100 | $ 4,282,700 |
| Add (deduct) – | | |
| Depreciation | 779,500 | 669,500 |
| Income taxes, deferred | 3,900,000 | 1,841,000 |
| Gain on sale of income properties | (1,017,000) | — |
| | 13,151,600 | 6,793,200 |
| Mortgages on income properties and land | 24,225,600 | 2,703,900 |
| Land, development and related costs realized through sales | 25,128,400 | 9,387,100 |
| Increase in other liabilities | 8,085,800 | 1,922,800 |
| Proceeds of sales of income properties, net | 2,132,600 | — |
| **Total cash provided** | 72,724,000 | 20,807,000 |
| **Cash was applied to:** | | |
| Land – | | |
| Acquisition | 22,073,300 | 1,868,400 |
| Development and related costs | 17,049,500 | 5,590,200 |
| Carrying charges | 2,969,300 | 2,656,900 |
| Increase in accounts, mortgages and other secured receivables | 16,068,800 | 2,032,900 |
| Income properties – | | |
| Construction | 3,291,300 | 5,777,500 |
| Acquisition | 4,946,900 | — |
| Income taxes | 2,765,100 | 5,949,500 |
| Amounts payable under land purchase agreements | 1,015,600 | 1,262,000 |
| Mortgage principal repayments – | | |
| Income properties | 538,900 | 499,200 |
| Land | 1,488,200 | 798,800 |
| Dividends | 880,600 | — |
| **Total cash applied** | 73,087,500 | 26,435,400 |
| **Net outgoing cash** | $ 363,500 | $ 5,628,400 |

# Notes to Consolidated Financial Statements

**1. Summary of accounting policies:**
The accounting policies of the Company conform to generally accepted accounting principles and comply with guidelines published by the Ontario Securities Commission relating to the recognition of profits in real estate transactions. The Company is a member of the Canadian Institute of Public Real Estate Companies and its accounting policies and standards of financial disclosure are substantially in accordance with the recommendations of that Institute.

a Principles of consolidation –
The consolidated financial statements include the accounts of the Company's subsidiaries, both of which are wholly-owned, and the Company's share of the assets, liabilities, revenues and expenses of both incorporated and unincorporated joint ventures in which it participates.

b Land and income properties –
Land and income properties except for certain land acquired by amalgamation (see Note 3), are at cost which includes pre-development expenses and carrying charges (interest and real estate taxes).

The Company follows the practice, customary in the industry, of recording as land for sale, the estimated cost on a fully developed basis of those parcels of land on which the planning, engineering, servicing and governmental authorization procedures are completed to the point that the land can be regarded as available for sale. The amount recorded includes raw land costs and full provision for the estimated complete development costs. The liability for the unexpended portion of the estimated development costs is shown as provision for development costs and includes any costs still to be incurred on lots which have been sold.

c Depreciation policy –
The buildings included in income properties are being depreciated on a 3%, 40 year sinking fund basis. Under this method, depreciation is charged to income in an amount which increases annually, consisting of a fixed charge together with interest compounded at the rate of 3% per annum, so as to fully depreciate the buildings over a 40 year period. Equipment is being depreciated at 15% on a straight-line basis.

d Income properties –
Revenue from income properties includes gross rental revenue from all the Company's properties except hotels and industrial buildings. Revenue from the Company's interest in hotels has been included after deducting operating expenses. Revenue from industrial buildings is on a net basis as operating expenses and realty taxes are paid for by the tenants. Revenue from income properties is recorded as income at the earlier of 70% rental occupancy or a period subsequent to substantial completion of the property deemed under the circumstances to be reasonable for leasing. Initial leasing costs of income properties are capitalized and amortized over the first term of the lease.

e Conversion of foreign currencies –
Transactions in United States currency are converted and recorded at the rates of exchange prevailing at the date of the transaction. Gains and losses on exchange are included in net income as realized.

**2. Mortgages and other secured receivables:**
Mortgages and other secured receivables, which arise from land transactions, bear interest at an average rate of 10.5% and mature as follows:

| | |
|---|---|
| Fiscal year ending October 31, 1977 | $ 4,416,300 |
| 1978 | 27,593,100 |
| Subsequent to October 31, 1978 | 1,551,500 |
| | $33,560,900 |

Under certain conditions the amounts due may be paid prior to maturity.

**3. Valuation of land and income properties:**
On August 12, 1965 Markborough Limited and Highbury Properties Limited amalgamated under the Ontario Corporations Act to form Markborough Properties Limited. Land originally held by Markborough Limited was recorded at cost. Land and income properties held by Highbury Properties Limited were recorded at approximately $1,800,000 less than the valuation at the date of amalgamation and approximately $4,100,000 in excess of the values recognized for income tax purposes. Any potential tax liability created by this excess was taken into account in arriving at the values used.

Part of the property to which this excess applied has been sold and as a result the balance has been reduced to approximately $2,450,000 allocated as follows:

| | | |
|---|---|---|
| Income properties: | | |
| Land | $800,000 | |
| Buildings | 150,000 | |
| | | $ 950,000 |
| Land for sale or future development | | 1,500,000 |
| | | $2,450,000 |

The increment shown above relating to income properties may result in additional taxes if the properties were sold.

The land for sale or future development subject to the increment is part of the Company's Meadowvale project. It is estimated that sales in this part of the project will extend over a ten year period and additional taxes of approximately $725,000 will be charged to income over that period.

Carrying charges accumulated to date on land for future development amount to $8,841,000 including $2,931,700 in the current year.

**4. Construction in progress:**
Estimated cost to complete construction of four projects in progress is approximately $5,550,000. Permanent financing has been arranged on all of these projects.

**5. Bank indebtedness:**
Bank indebtedness includes $7,481,000 secured by demand debentures creating a first floating charge on the assets of the Company and ranking ahead of the security for the sinking fund debentures (Note 8). The remaining indebtedness, $2,491,200 relates to the Company's share of bank advances to incorporated joint ventures.

**6. Income taxes:**
The Company's provision for income taxes has been calculated in accordance with generally accepted principles, by applying the income tax rate applicable to its 1976 fiscal year to net income earned during the year.

The amount of the 1976 provision that is currently payable, $4,720,000, is calculated by applying the same tax rate to the Company's taxable income which, because of certain sections in the Income Tax Act, is less than the net income shown in the Company's accounts. The section in the Income Tax Act which gives rise to the major difference between the Company's taxable and net income in 1976 allows a deferment of tax on profits from land sales until the proceeds are received in cash.

The remainder of the tax provision, $3,900,000, the amount not currently payable, is included on the balance sheet as deferred income taxes. Based on the Company's projections of future taxable income, it is unlikely that the balance of the deferred tax account will be reduced before 1980.

**7. Amounts payable under land purchase agreements:**
Under terms of various land purchase agreements the Company has incurred obligations related to land for future development at an average interest rate of 5.7% which are repayable approximately as follows:

| | | |
|---|---|---|
| Fiscal year ending October 31, | 1977 | $1,011,800 |
| | 1978 | 1,002,200 |
| | | $2,014,000 |

**8. Sinking fund debentures:**
The sinking fund debentures, authorized at $10,000,000 and secured by a floating charge on the assets of the Company (subject to the security referred to in Note 5), bear interest at 8.5% and are repayable as follows:

| | | |
|---|---|---|
| Fiscal year ending October 31, | 1977 | $ 1,500,000 |
| | 1978 | 1,500,000 |
| | 1979 | 1,500,000 |
| | 1980 | 1,500,000 |
| | 1981 | 2,000,000 |
| | 1982 | 2,000,000 |
| | | $10,000,000 |

In addition, under certain circumstances the principal outstanding at any time may be reduced by the exercise of the share warrants issued in connection with these debentures (See Note 10(a)).

**9. Mortgages payable:**
Mortgages payable comprise the following:

| | |
|---|---|
| On land for future development, at an average interest rate of 9.2% with varying repayment terms and maturing by 1991 | $43,358,200 |
| On income properties, at an average interest rate of 8.5% payable in equal instalments of principal and interest and maturing by 2004 | 34,888,900 |
| | $78,247,100 |

Mortgages payable include $12,581,900 payable in United States funds. These mortgages were converted to Canadian dollars at the exchange rates prevailing when the funds were received and are therefore recorded in the accounts at $12,867,000. Any gains or losses on exchange will be recorded as realized.

Principal repayments are due approximately as follows:

| | | |
|---|---|---|
| Fiscal year ending October 31, | 1977 | $ 3,228,500 |
| | 1978 | 3,164,800 |
| | 1979 | 3,887,100 |
| | 1980 | 3,740,600 |
| | 1981 | 21,642,600 |
| Subsequent to October 31, | 1981 | 42,583,500 |
| | | $78,247,100 |

**10. Capital stock:**
**a** In connection with the issue of $7,000,000 sinking fund debentures in 1971, warrants were issued during that year entitling the holders thereof to purchase 400,000 common shares of the Company at a price of $8 if exercised on or before January 30, 1977 and thereafter at a price of $9.50 if exercised on or before January 30, 1982. On the issue of the remaining $3,000,000 sinking fund debentures in 1972, warrants were issued during that year entitling the holders thereof to purchase an additional 171,429 common shares at a price of $8 if exercised on or before January 30, 1978 and thereafter at a price of $9.50 if exercised on or before January 30, 1983. In prior years, warrants related to debentures issued in 1972 were exercised resulting in the issue of 15,000 common shares. During the current year no warrants were exercised. For the purpose of the warrants still outstanding, 556,429 common shares have been reserved. Under certain circumstances the above warrants may be exercised by an equivalent reduction in outstanding sinking fund debentures.
**b** If the 556,429 outstanding warrants were exercised and the funds derived invested at 10%, the Company's fully diluted earnings per share would be $2.13 (1975 – $0.99).

**11. Contingent liability:**
The Company is contingently liable at October 31, 1976 for $8,533,000 representing the liabilities of its co-owners in unincorporated joint ventures but against such contingent liability the Company would have a claim upon the joint venture assets of its co-owners. The value of these joint venture assets exceeds the contingent liability.

**12. Anti-inflation guidelines:**
The Company is subject to, and believes it has complied with, controls on prices, profits, compensation and dividends under the Federal Government's anti-inflation program and controls on residential rents instituted by the Province of Ontario.

**13. Remuneration to directors and senior officers:**
The aggregate direct remuneration paid or payable to the directors and nine senior officers of the Company as defined in the Ontario Business Corporations Act (eight in 1975) in respect of the year ended October 31, 1976 was $477,000 (1975 – $433,000).

# Ten Year Comparison

(thousands of dollars except where noted)

| | 1976 | 1975 | 1974 | 1973 | 1972 | 1971 | 1970 | 1969 | 1968 | 1967 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Operating results for the year** | | | | | | | | | | |
| Revenue from land operations | $40,933 | $16,925 | $12,915 | $29,449 | $7,047 | $3,466 | $4,002 | $7,410 | $2,856 | $2,552 |
| Revenue from income properties | 8,720 | 7,741 | 7,037 | 6,132 | 5,234 | 4,954 | 4,754 | 3,771 | 3,014 | 1,387 |
| Net income before taxes | 18,109 | 8,906 | 7,425 | 12,376 | 2,041 | 1,057 | 1,427 | 2,615 | 871 | 295 |
| Net income after taxes | 9,489 | 4,283 | 3,529 | 6,065 | 985 | 540 | 695 | 810 | 427 | 145 |
| Dollars per share (weighted average): | | | | | | | | | | |
| Net income after taxes | 2.37 | 1.07 | 0.88 | 1.53 | 0.26 | 0.15 | 0.19 | 0.22 | 0.12 | 0.04 |
| Cash flow from operations | 3.54 | 1.70 | 0.98 | 3.15 | 0.70 | 0.44 | 0.54 | 0.85 | 0.35 | 0.13 |
| **Financial position at the year-end** | | | | | | | | | | |
| Undeveloped land | $83,719 | $63,215 | $60,458 | $34,736 | $27,778 | $27,985 | $25,592 | $22,054 | $16,787 | $14,809 |
| Income properties | 57,062 | 51,292 | 46,155 | 40,199 | 38,096 | 35,772 | 31,373 | 30,095 | 27,880 | 24,027 |
| Total assets | 186,381 | 142,105 | 133,876 | 110,977 | 80,837 | 75,565 | 59,764 | 58,864 | 50,789 | 44,142 |
| Bank debt | 9,972 | 9,609 | 3,980 | — | 920 | 1,435 | 1,335 | 3,938 | 6,325 | 6,438 |
| Long term debt | 90,261 | 70,808 | 70,664 | 56,542 | 44,352 | 40,908 | 32,655 | 29,946 | 22,431 | 15,932 |
| Share capital | 20,956 | 20,956 | 20,956 | 20,695 | 20,615 | 18,591 | 18,591 | 18,591 | 18,568 | 18,460 |
| Retained earnings | 26,076 | 17,467 | 13,185 | 9,656 | 3,591 | 2,606 | 2,066 | 1,371 | 561 | 134 |
| **Statistical at the year-end** | | | | | | | | | | |
| Common shares outstanding | 4,003 | 4,003 | 4,003 | 3,959 | 3,944 | 3,652 | 3,652 | 3,652 | 3,649 | 3,627 |
| Ratio of income properties to land for development | .7 to 1 | .8 to 1 | .8 to 1 | 1.2 to 1 | 1.4 to 1 | 1.3 to 1 | 1.2 to 1 | 1.4 to 1 | 1.7 to 1 | 1.6 to 1 |
| Ratio of debt to equity | 2.1 to 1 | 2.1 to 1 | 2.2 to 1 | 1.9 to 1 | 1.9 to 1 | 2.0 to 1 | 1.6 to 1 | 1.7 to 1 | 1.5 to 1 | 1.2 to 1 |

Head office: 90 Eglinton Avenue West, Toronto

# Markborough Properties Limited

## Directors

**D.S.Anderson**
Chairman
Canada Realties Limited
Toronto

**A.R.Grant**
President
George Wimpey Canada Limited
Toronto

**G.C.Gray**
President
A.E.LePage Limited
Toronto

**The Right Honourable Viscount Hardinge**
Honorary Chairman
Greenshields Incorporated
Montreal

**Captain J.Jeffery**
Chairman of the Board
London Life Insurance Company
London

**H.P.Langer**
Executive Vice-President
Markborough Properties Limited
Toronto

**A.J.MacIntosh**
Partner
Blake, Cassels & Graydon
Toronto

**B.R.B.Magee**
Chairman of the Board
A.E.LePage Limited
Toronto

**P.M.McEntyre**
President
Commercial Trust Company Limited
Montreal

**D.S.McGiverin**
President and Chief Executive Officer
Hudson's Bay Company
Toronto

**J.G.W.McIntyre**
Vice-President, Retail Development
Hudson's Bay Company
Toronto

**D.W.Pretty**
President
North American Life Assurance Company
Toronto

**D.F.Prowse**
Executive Vice-President
Markborough Properties Limited
Toronto

**J.L.Toole**
Chairman
C.N.Investment Division
Vice-President
Canadian National Railways
Toronto

**P.W.Wood**
Vice-President, Finance
Hudson's Bay Company
Toronto

## Officers

**Brian R.B.Magee, F.R.I., S.I.R., C.R.E.**
Chairman of the Board and President

**Donald S.McGiverin, B.Comm., M.B.A.**
Deputy Chairman of the Board

**H.Peter Langer, F.R.I., S.I.R.**
Executive Vice-President

**Donald F.Prowse, B.A., C.A.**
Executive Vice-President

**John B.Alguire, B.A.Sc., P.Eng.**
Vice-President

**Donald R.Cole, B.A., M.C.I.P.**
Vice-President

**George H.Mundy, C.A.**
Vice-President and Treasurer

**James C.Shapland, B.A., LL.B.**
Vice-President

**Ronald C.Brown, B.A.**
Secretary

**Joseph F.Dubowski, B.Comm., C.A.**
Assistant Treasurer

**Reginald W.Munro**
Assistant Secretary

## Corporate data

**Legal Counsel**
Blake, Cassels & Graydon, Toronto

**Auditors**
Price Waterhouse & Co., Toronto

**Transfer Agent and Registrar**
Canada Permanent Trust Company
Toronto, Montreal, Halifax, Winnipeg, Calgary
and Vancouver

**Securities Listed**
Montreal Stock Exchange
Toronto Stock Exchange

**Markborough Properties Limited** 90 Eglinton Avenue West, Toronto, Canada M4R 2E7

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## Consolidated Statement of Source and Application of Cash

For the Six Months Ended April 30, 1976 (Unaudited)

(with comparative figures for the six months ended April 30, 1975)

| | 1976 | 1975 |
|---|---|---|
| **Cash was provided from:** | | |
| Operations – | | |
| Net income for the period | $ 3,764,900 | $ 1,497,000 |
| Add expenses included therein not requiring a current outlay of cash - | | |
| Depreciation | 364,500 | 330,300 |
| Income taxes, deferred | 1,071,000 | 621,000 |
| | 5,200,400 | 2,448,300 |
| Mortgages on income properties and land | 1,101,400 | 568,200 |
| Land, development and related costs realized through sales | 11,516,900 | 3,227,500 |
| Cost of income property sold net of mortgage assumed by purchaser | 463,000 | — |
| Increase (decrease) in other liabilities | 4,559,400 | (155,300) |
| Total cash provided | 22,841,100 | 6,088,700 |
| **Cash was applied to:** | | |
| Income property construction | 1,229,300 | 3,323,800 |
| Land – | | |
| Acquisition | 1,334,700 | 880,300 |
| Development and related costs | 6,977,700 | 2,086,500 |
| Carrying charges | 1,205,800 | 1,215,300 |
| Increase in accounts, mortgages and other secured receivables | 2,657,000 | 1,739,200 |
| Income taxes | 1,542,000 | 1,918,200 |
| Amounts payable under land purchase agreements | 1,011,800 | 1,180,400 |
| Mortgage principal repayments – | | |
| Income properties | 269,500 | 244,600 |
| Land | 950,700 | 143,600 |
| Dividend payment | 440,300 | — |
| Total cash applied | 17,618,800 | 12,731,900 |
| **Net incoming (outgoing) cash** | $ 5,222,300 | $(6,643,200) |

Markborough
PROPERTIES LIMITED

90 Eglinton Avenue West
Toronto, Canada M4R 2E7

File

Markborough
PROPERTIES LIMITED

Interim Report to the Shareholders for the Six Months Ended April 30, 1976

## Dear Shareholder:

I am pleased to report our unaudited results for the six months ended April 30, 1976. Net income for the period was $3,764,900, 94¢ per share compared to $1,497,000, 37¢ per share for the same period last year.

Land sales revenue was $17,635,500 compared to $5,778,000 last year. Most of these sales took place in our Meadowvale West residential community. In addition, we have conditional sales agreements for over $22,000,000 which we expect will close before the year end.

The decrease in profit from our income property operations is largely the result of increases in operating expenses and realty taxes. We are experiencing an increase in vacancies in some of our industrial buildings but expect this trend to be temporary.

During the period the sale of one of our apartment buildings produced a profit before income taxes of $397,900. While it is not the Company's policy to sell existing income properties, the yield from this particular building was not satisfactory and it was therefore decided to accept a favourable offer.

On January 26, 1976 the Board of Directors declared the Company's first dividend, 11¢ per share payable on February 24. As mentioned at that time, it is the Board's present intention to declare dividends semi-annually.

If our projections for the balance of the year are met, the results for our final six months should equal or exceed those of the first half.

Yours very truly,

B. R. B. Magee,

May 21, 1976 *President and Chairman of the Board.*

## Consolidated Statement of Income and Expenses

For the Six Months Ended April 30, 1976 (Unaudited)

(with comparative figures for the six months ended April 30, 1975)

| | 1976 | 1975 |
|---|---|---|
| Revenue from land operations | $17,635,500 | $ 5,778,000 |
| Less cost | 11,516,900 | 3,227,500 |
| Profit from land operations | 6,118,600 | 2,550,500 |
| Revenue from income properties | 4,205,400 | 3,772,100 |
| Less: | | |
| Operating expenses | 1,219,000 | 1,012,700 |
| Mortgage and other interest | 1,301,500 | 1,171,500 |
| Realty taxes | 755,400 | 605,400 |
| Depreciation | 364,500 | 330,300 |
| | 3,640,400 | 3,119,900 |
| Profit from income properties | 565,000 | 652,200 |
| Interest and other income | 846,000 | 737,200 |
| Gain on sale of income property | 397,900 | — |
| **Income before general and administrative expenses** | 7,927,500 | 3,939,900 |
| General and administrative expenses: | | |
| Executive and office salaries | 443,500 | 352,700 |
| Bank and debenture interest | 129,500 | 203,000 |
| Other | 376,600 | 328,200 |
| | 949,600 | 883,900 |
| **Net income before income taxes** | 6,977,900 | 3,056,000 |
| Provision for income taxes (See Note 1) | | |
| Current | 2,142,000 | 938,000 |
| Deferred | 1,071,000 | 621,000 |
| | 3,213,000 | 1,559,000 |
| **Net income for the period** | $ 3,764,900 | $ 1,497,000 |
| **Earnings per share** | | |
| On shares outstanding | $ 0.94 | $ 0.37 |
| On fully diluted basis (See Note 2) | $ 0.85 | $ 0.35 |
| Cash flow per share (See Note 1) | $ 1.30 | $ 0.61 |

**Notes:**

1. The Company's provision for income taxes has been calculated in accordance with generally accepted principles, by applying the income tax rate for the current fiscal year to net income earned during the period. Because of certain sections of the Income Tax Act, it is expected that a portion of the provision for taxes for the 1976 fiscal year will be deferred in the accounts. At this time, it is estimated that approximately two-thirds of the year's provision will be currently payable with the balance deferred. The cash flow per share has been calculated in accordance with this treatment.
The 1975 provision for income taxes has been allocated between current and deferred on the same basis as shown in the Company's audited accounts for the year ended October 31, 1975. As a result the 1975 cash flow per share has been re-stated from $0.46.

2. Diluted earnings per share are based on the exercise of all outstanding warrants to purchase shares in the Company, assuming the funds derived are invested at 10%. The amount of such imputed income after taxes is $115,000 (1975 – $109,000).

## Consolidated Statement of Retained Earnings

For the Six Months Ended April 30, 1976 (Unaudited)

(with comparative figures for the six months ended April 30, 1975)

| | 1976 | 1975 |
|---|---|---|
| Retained earnings at beginning of period | $17,467,300 | $13,184,600 |
| Net income for the period | 3,764,900 | 1,497,000 |
| | 21,232,200 | 14,681,600 |
| Dividend paid | 440,300 | — |
| **Retained earnings at end of period** | $20,791,900 | $14,681,600 |